LOUISVILLE BUSINESS FIRST

wealth management table of experts

A panel of financial experts discusses the current trends in wealth management.

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message from the publisher

GARY TYLER

Despite a raging bull market, managing your money and investments to achieve your financial goals is as challenging as ever due to uncertainty in global markets, changing regulations and technology. In a 60 minute discussion, moderated by former Publisher Tom Monahan, at our Business First office on February 16th, representatives from seven firms involved in the wealth management industry talked about the challenges and opportunities facing today's investors.

The sponsoring companies paid for the advertising in this section and for a seat on the panel. The discussion in this section has been edited for space purposes. I want to thank the sponsoring firms for their support and for the panelists who participated.

Best regards,
Gary Tyler, *Market President & Publisher*

the panelists

NICOLE JACOBSEN-NALLY, CTFA, AIF®

Market President - Argent Trust Company

As founding officer for Argent Trust Company in Kentucky, Nicole advises clients on investment, tax and estate planning. She works in tandem with her legal and accounting network to provide the best possible solutions to each individual family's needs. She is a graduate of the University of Louisville, Cannon Trust School, Leadership Louisville, is a Bingham Fellow, and is a member of the Estate Planning Council of Metro Louisville.

STEVE J. GIACOBBE, CFA, CFP®

Managing Partner / Chief Investment Officer - Accredited Wealth Management

Steve is the founder of Accredited Wealth Management, a Louisville-based independent wealth management firm providing fee-only investment and financial planning services. He is a Certified Financial Planner™ and a Chartered Financial Analyst with twenty five years of experience. Steve earned his B.A. in economics from Washington & Lee University and an M.B.A. in finance from UNC Greensboro.

LOUIS A. LEMOS II, CFA

Executive Vice President / Chief Investment Officer - First Kentucky Trust

Lou has a Master of Jurisprudence degree in Business and Corporate Governance Law from Loyola University Chicago School of Law. He earned his MBA from Murray State University and a Bachelor of Science in finance from Kent State University. Lou is a Chartered Financial Analyst with over 20 years investment experience and serves as a director of curriculum development for the CFA Institute.

MARK K. NICKEL, CFP®

Senior Vice President / Director of Portfolio Management - Hilliard Lyons Trust Company

Mark is a Certified Financial Planner™ with 19 years of experience in the investment industry. He is a member of the Trust Company's Strategic Planning Team, Chair of the Trust Company's Investment Committee, and a member of Hilliard Lyons' Investment Strategy Group. Mark received a B.S. in finance from the University of Louisville and his M.B.A. from Smurfit School of Business, University College of Dublin (Ireland).

CHARLES "TODD" MERCER, CRPS®, C(k)P® Certified 401(k) Professional

Senior Vice President / Wealth Management Advisor - Merrill Lynch

Todd brings more than 25 years of experience in support of clients' wealth management needs. In addition to investing strategies, Todd focuses on estate planning services, trust related matters, corporate retirement plan services, business succession, insurance, and liability management. He is a Senior Portfolio Manager, and has been managing portfolio strategies on a discretionary basis since 2003.

MIKE RICKETTS

Managing Director, Investments - Raymond James

Mike Ricketts' career in financial services spans over four decades. His commitment to serving clients has been more than a vocation – it's been his passion and avocation. Now working with two sons, Patrick and McCauley, he continues to help clients build portfolios that address needs for now and later. Recognized as a Barron's "America's Top 1000 Financial Advisors".

SHANNON B. BUDNICK, CTFA, CFP®

Senior Vice President / Managing Director of Investments - Stock Yards Bank & Trust

Shannon manages portfolios for high-net-worth clients and institutions and is responsible for the day-to-day management of the investment team. She is a Certified Trust and Financial Advisor and a Certified Financial Planner™ certificant. Graduated Florida Trust School, Florida Graduate Trust School, National Trust School, and National Graduate Trust School, and holds a B.A. in Business from the College of William and Mary.

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MODERATOR: We'll start with a real easy question. We've got an unpredictable president in the White House. We're in very long bull market. And there's a lot of uncertainty in the United States and around the world now. So all I need from you is your market outlook for 2017. Where do you think we're going?

GIACOBBE: We believe stocks and risk assets have been in a sweet spot for several years. Economic growth has been slow and steady since the financial crisis, which has taken deflation risk off the table. While the slow pace of economic growth has not been fast enough to push inflation much higher, which has kept the Federal Reserve from aggressively tightening monetary policy. We think this favorable economic environment may continue for a while. Although, we recognize that the economy is fairly late in this business cycle and stock market valuations in the U.S. are quite high. We believe as we move further into the year risks are likely to increase. One of the risks we're watching closely is how well the economy handles the handoff from monetary policy to fiscal policy, how this transition is handled will have significant ramifications on the markets. Other potential risks are the rise in populism around the world and the trend from globalization towards de-globalization. Investors should watch the upcoming elections in Europe to see how this trend plays out globally. Lastly, I would highlight the trend from disinflation to reflation and the impact this can have on interest rates and stock valuations, if inflation and interest rates increase substantially it can negatively impact valuations. We believe there is uncertainty around all these trends and we can paint a picture where it can go one way or the other, positive or negative. Currently we have an optimistic outlook, but think uncertainty will increase as we move further into the year. President Trump has increased confidence and animal spirits in the markets, and has been granted a grace period as he formulates his policy. But at some point, the market will start to look for results versus expectations. If results don't live up to current expectations the markets may be in for some surprises, and would cause us to be more cautious in our outlook.

NICKEL: I think last year was as great an example in recent history of how impossible it is to predict what's going to happen. We started last year and it seemed like China was falling off a cliff. Risk markets sold off and we recovered. And then we had something that was not supposed to happen at all – Brexit – which is really the first sign of populism becoming a bigger and bigger issue globally. And we did have risk markets sell off quickly, but then recovered within a matter of weeks. And lastly, we had the presidential election where nobody thought a Trump win was possible. And people were on the record saying, if it does happen, we're going to see a 10 percent or more sell-off – a Brexit-like repeat. And that didn't happen. We had an intra-night sell-off, but then by the time the market opened the day after the election, we were pretty much flat and then we saw a really precipitous rise. So it's just impossible to say what is going to happen this year. We agree with a lot of what Steve said. One of the things that we do anticipate at some point is that we'll see the equity risk premium or risks increase as

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the administration's grace period sort of falls by the wayside. We can see risks on the downside and on the upside. So it could be a really good year if all these things come to fruition. It may not be such a good year if trade wars happen and if Congress and the administration don't work together. As of yesterday, we haven't seen a 1 percent or greater move in the S&P for something like 41 days. That's the longest period since '82. So it's like the market is just pausing and we're just digesting and we're sort of waiting for the next shoe to drop positively or negatively. We think valuations are rich. But they've been that way for a while. And valuations are a horrible timing tool. So a lot could happen this year either way.

LEMOS: I tend to agree with both of you. Making short-term market predictions is usually perilous, but we're fairly optimistic. It does appear that the underlying economic fundamentals and sentiment are supportive of the markets moving higher in the intermediate term. In terms of the new administration, while we are in the early innings, it does seem like investors like what they are hearing. We think the prospect of tax reform for individuals and corporations and the possibility of some meaningful infrastructure spending is supportive of a better business climate and also equity markets in the intermediate term.

RICKETTS: I take a little bit more simplistic approach to things. The quick answer in our opinion is, stocks represented by the market should be just fine. Bonds, may just clip your coupon there. We walk through an exercise with our clients periodically to get a general stock market opinion. It's: what's your opinion on interest rates or inflation? How do earnings in general look to you? Is money flowing into or out of the market? And the answers are along the lines of, rates and inflation look manageable and historically low, that's a positive. Earnings have been trending up and are better quality, that's a positive. Money flows have steadily improved, that's a positive. Obviously if two of those situations become negatives, then you want to back off your stock market position. The Trump White House, part of the question could actually be a fourth that we've not used before. And that is, does Washington look to be pro-business? And that seems to be a positive. So we've got a lot of positives out there. The net effect, in our humble opinion is, you're going to have a positive market this year.

JACOBSEN-NALLY: We are definitely expressing a similar sentiment; Every discussion about the economy must address the new administration. There are propos-

als and policy positions on immigration, tax reform, and partial elimination of some Dodd-Frank rules in the works. But we don't know what's going to be enacted. We don't know what's going to get through. Certainly, President Trump has reiterated economic growth that requires major effects from trade and tax legislation that gets pushed through. We do think that 2017 will bring a volatile market, which, again, we reiterate now more than ever, now is the best time to have a professional adviser, advising you regarding your investment portfolio.

BUDNICK: We have an optimistic outlook for 2017. We're favoring stocks over bonds. There are risks in both the equity and fixed income markets. Under current market conditions, we feel risk of a recession is low. Trump, as we said, has a pro-business agenda. Increased government spending, consumer and business spending means faster economic growth. So we think that will fare well for our clients and investors. We do anticipate continued volatility throughout the year. One of our objectives is to educate our clients on the risk of the market, sitting down with them and going over prudent asset allocation, taking a long-term approach to the markets. So we're not investing for tomorrow, we're investing for their future. We do think equities are slightly elevated, but they're elevated for a reason. We think higher earnings may make those slightly elevated values more tolerable. So we do feel optimistic for 2017.

MERCER: Merrill's CIO report sees the S&P 500 potentially as high as 2,700, if you want to put a number on it. Maybe GDP as high as four percent if some of the things get done that the new administration wants done. You've got tax cuts at the personal level going from 39 percent to 33 percent. Congress and the administration are unified on that. You have tax cuts for C corporations going from 35 percent to 15 or maybe 20, which is what Congress has wanted. S corporation dividends going down to 25 percent. You have repatriation of profits overseas as much as $3 trillion depending on how it is measured. Coming back, that's probably going to be tied to some kind of infrastructure program. Something's going to get done on the Affordable Care Act. And Trump has said he's going to reduce two regulations for every one new regulation out there and has already suspended many regulations that Obama put in at the end of his administration. You have something that's going to get done on renegotiation of trade and tariffs. And then you've got a major infrastructure spending package that's probably going to come. The Democrats are in agreement with that. So Janet Yellen said on November 17 when she testified in front of Congress that they had no economic model for the fiscal stimulus that is coming from the new administration. Going back to Mark's comment, when the market went crazy the night of the election, I think it was initially going, "Oh my God, Trump is going to win." And the Democrats may control the Senate. And then as the night wore on was like, "Oh my God, Trump is going to win and the Republicans are going to control Congress." And there's going to be a major change in Washington. And it will be more pro-business, more pro-economic policy in Washington. And so if this stuff gets done, we have a very positive outlook for the market. If it doesn't get done and it gets bogged down, it's going to be a terrible year.

LEMOS: It seems like everybody's brought up the idea of valuation. That's the headline that's in the news every day. Are the U.S. equity markets over-valued? Despite the fact that the U.S. equity markets have run quite a bit, we think a pretty strong case can be made that the markets are not over-valued, at least not as much

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as some of the market pundits would have you believe. Clearly the markets are not as cheap as last year at this time, but if you take into consideration the low level of interest rates, where inflation expectations are right now, coupled with a better earnings outlook, we believe that the U.S. equity markets could have some more upside from here.

MERCER: Current evaluations are a rear-view mirror view. So if a lot of this tax reform and stimulus goes through and you start looking through the windshield as opposed to through the rear view mirror, earnings can go through the roof. And earnings drive a stock market. So if we have increased earnings, then the current valuations don't make a difference.

BUDNICK: It really depends on how successful and quickly the new administration can execute the policy changes that we've heard here today. And that will impact how much and where the market will move.

JACOBSEN-NALLY: I think it's notable that the S&P 500 rose 8.6% between election day and the last day of 2016. So the markets have responded positively. But the administration needs to learn to work with the legislative and regulatory system.

RICKETTS: And I think that many years ago we talked about a new paradigm. And that new paradigm was a bunch of junk because we were allowed to own companies that had no earnings, had high multiples. But that was supposed to be OK and it wasn't. This time around, if you look at the market PE, and you take out that hyper inflation period of the '70s, you really have about a 16 1/2 to 17 historic PE. So to Todd's point, if earnings come through and we think they will, then you're going to be just fine.

LEMOS: The other side of that question that clients often ask us is what would make us less optimistic or less constructive on the U.S. equity markets. It's the basics. If we were to see a slowdown in U.S. economic growth or inflation pick up in a meaningful way, clearly we'd become less constructive on the U.S. equity markets. History tells us that market PE multiples generally don't come under undue pressure until you start to see inflation creep up to about 4 percent. Additionally, we're somewhat optimistic that if some of the fiscal plans and regulatory changes proposed by the new administration go through and investors can look through some short-term volatility that may occur, we can have a reasonably good U.S. equity market environment in 2017.

MODERATOR: Other than just trying to counsel your clients to look at their long-term investments, how do you calm their nerves when they hear in the news about something that's supposed to negatively affect the market?

BUDNICK: It's all about controlling risk. We have to make sure we're taking the appropriate amount of risk for our clients. We look not only at asset allocation, risk tolerance and time horizon but also at controlling risk from the inside of our clients' portfolios. We look for businesses that have growth opportunities, good earnings history and that are recession proof. Typically on our individual equities, we're taking a little bit less risk than the market, so that our clients don't feel all of that pain if there is a correction. Our job is really about monitoring risk for the client and making them feel comfortable.

NICKEL: It goes back to what are we trying to achieve with our portfolios. Many of our clients live off of their portfolios. So have we structured the income so that, whether the market is booming or

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CLOCKWISE, FROM TOP LEFT: Katie Edwards, Bart Brown, Alex Say, Shannon Budnick, Kathy Thompson, Gordon Maynard, Rebecca Howard, Todd Barron, Lynn Land, Caroline Meena, Jack Gillette, Keith Blakely, Rose Wathen, Jonathan Keltner, Kim Hudson, Marcia Mattingly, Neil Byrne, Stephen Mercer, Janice Siewertsen, Paul Stropkay, Mark Holloway, Adrienne, Hayes, Doug Harper, Damon Massey, Claudette Patton, Joan Schade, Greg Watkins, Tim Gutknecht, Kimberly Cunningham, and Jimmy Ford

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whether it's falling, is the income going to be consistent? Is it going to be there? Can you continue to count on your income for your monthly expenses or your lifestyle? So it's really coming back to basics. What are we here to do, and have we constructed the portfolios safely to let clients achieve those goals? A lot of the other stuff is just noise. And then it's also walking them off the plank when they think they need to jump and reassuring them. The psychology part of our job comes into play.

GIACOBBE: We regularly have conversations with our clients about risk ahead of time, if you wait until a risk event happens, it's probably too late. We spend time trying to understand their expectations and what they need to achieve their personal goals. Once we understand their goals we discuss the impact of risk, and will often do a scenario analysis to evaluate how their portfolio will do in different market environments. We want to educate our clients to think of volatility as an opportunity. We've all talked about valuation, if you're thinking long term, high valuations today will equal lower than average long-term returns, however in the short term it is difficult to predict. One of the ways we can improve on those returns is to think about risk in a pro-active way, and view volatility or risk as an opportunity to improve our portfolios and positions in the market. Our clients know we are only a phone call away and the more we discuss those scenarios ahead of time, the more disciplined our clients will be and the better returns will be.

RICKETTS: We tell them to turn off the TV. Just stay over here in the slow lane. Don't worry about everybody whizzing by. And turn off the TV. Go read a book. Go take a walk.

JACOBSEN-NALLY: We are supposed to be your designated worriers. The market responds to social and governmental change with volatility. So you try to communicate that to your client to make them feel at ease. It's all about our relationship with our clients.

MERCER: We do a financial plan for every client. And in that plan it has what their net worth should be at different times. And so I'll pull it out and say, "Your portfolio is worth $2.5 million. You're $200,000 ahead even with this 10 percent correction. So we're on plan here. We're right where we need to be." And the other thing I do is keep this chart underneath my desk and it comes from one of our vendors. It goes back 30 years and it has the high point and a low point each year for the market. And to Mike's point about turn off the TV, I'll tell the clients, "Turn off your TV." Stop watching CNBC, Fox Business News or CNN because they'll say that "We've never seen volatility like this." Well, if you go back to 1998 and I think it was the Asian currency crisis, in October the market went down 19 percent. And by the end of the year the market was up 26 percent. That's a 46 percent turnaround in less than three months. That's volatility. If you apply that to the Dow Jones today, that's a 9,200 point move in the Dow. If we had a 9,200 point movement in the Dow today, people would be freaking out. It would be pandemonium in the streets if we had that. So you've just got to keep clients' perspective on where their goal is, where their portfolio is long term. And don't let them get too risky when the market is up. And don't let them take too much money out when the market's down.

LEMOS: I'm going to make two quick points. It's going to sound extraordinarily basic, but an effective tool for dealing with clients when the market is resetting to a lower valuation or the market is getting a little more volatile is simply to show them past periods where we've experienced similar events and then show them the subsequent market performance and the importance of staying the course and not panicking out of the market. But we have been so spoiled as of late, right? Upward trending markets make our jobs easier. When the markets get a little more volatile, that's when we truly earn our fees. We would not be surprised to see volatility pick up a little from here. The markets are going to have to digest a Fed moving from an extremely accommodative monetary stance to somewhat less accommodative stance. We already talked about the new administration and the markets digesting new policies. So we'll probably see some more volatility going forward. And, by the way, it's very typical in the second half of a business cycle to see increased volatility. So we're going to have to coach clients through what we think could be periods of a little higher volatility than what we've seen recently.

MODERATOR: How do you go about determining your clients' tolerance for risk?

BUDNICK: It's getting to know your client. It's really knowing what their personal beliefs and values are and listening to them. There are times a client will say, "Oh, I want to take a lot of risk." But as you continue that conversation and you ask questions, you hear them saying, "I don't want to lose any principal." Well, that doesn't match up. That is where the education begins. We look at market history and projected returns. How much risk can you stand? What do you need in your portfolio? They may not need to take any risk in their portfolio. So it all depends. It's personal to the client.

LEMOS: Shannon's bringing up a great point because one of the things you often find is despite the fact that our clients are wealthy and many of them have an ability to take a lot of risk many are unwilling to take much risk. You have to have a match or consistency between their ability to take risk and willingness to take risk. And it's not always there. When new clients experience market volatility you start to get a feel for their true risk tolerance. That leads to additional conversations around risk because one of our most important jobs is to keep clients from committing investment errors. You know, "Hey, let's get out of the market and we'll get back in when things get better." We know that market timing is generally a losing strategy for most investors.

BUDNICK: And clients have to be able to sleep at night. They have to sleep through volatile market cycles. It's what makes them feel comfortable while striving to achieve their goals.

MERCER: I'll look at the client

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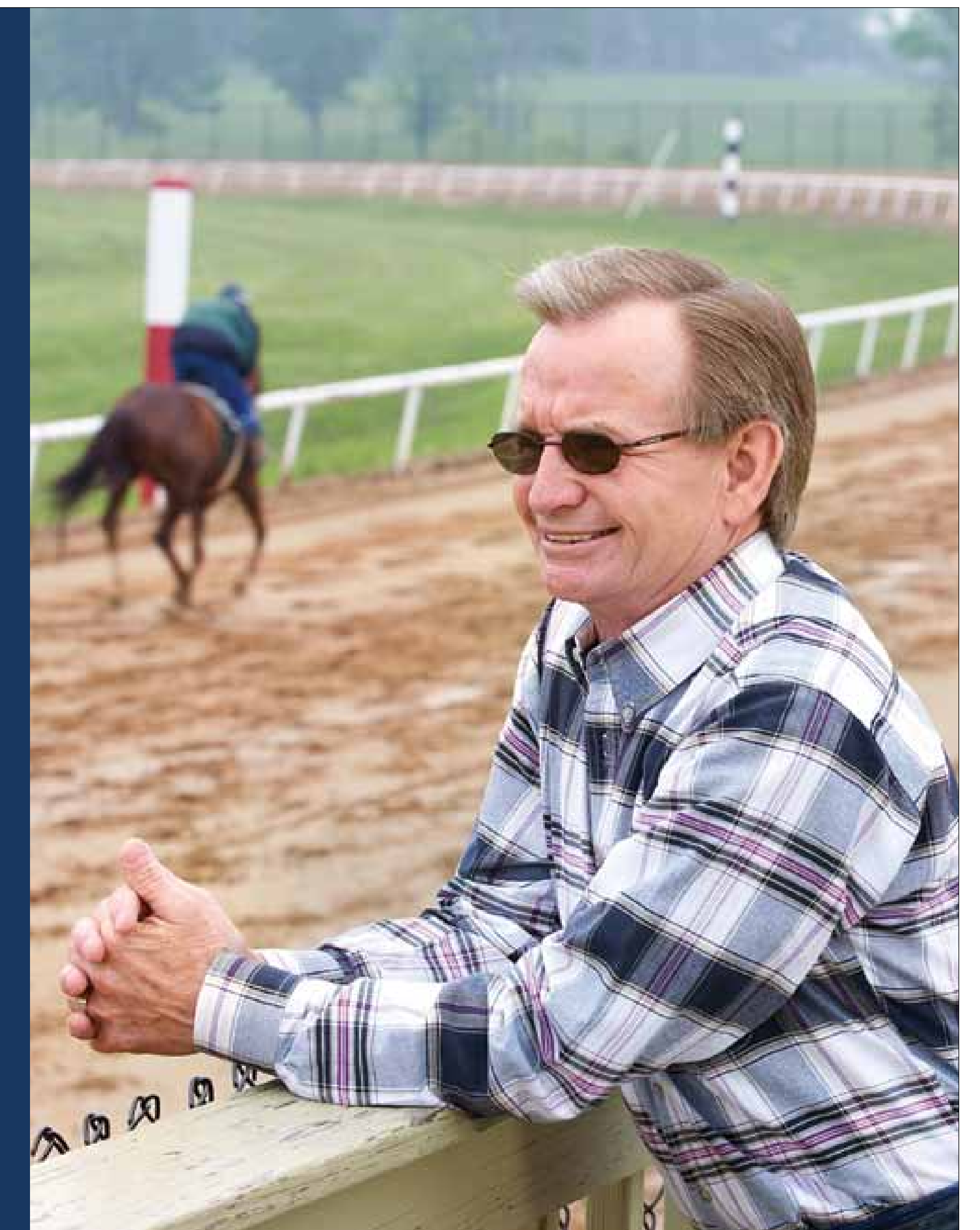

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and say, "You have a $2 million portfolio. And if the market corrects 10 percent from here you're down $200,000. Or if it corrects 30 percent, you're down $600,000. Are you willing to take that risk?' And they're like, "Oh, no. I don't want to lose $600,000." Well, then instead of being 100 percent equity, we need to back it off. Because that's what could happen with this portfolio.

NICKEL: You try to get their head around real dollars. A risk tolerance questionnaire that they fill out might say you should be 80/20 or 60/40. It's sort of like a theory, but what's the real impact to you. Can we get our clients to really think that through and put themselves in that seat? And if we can get them there, then it's a good situation.

RICKETTS: To Shannon's point, there's just a lot of psychology that goes into this. You have to manage expectations, answer their question. Whatever they start with is OK, but you've got to get them back to the real world. Just manage those expectations and communicate.

BUDNICK: Clients need to understand that 10 percent market corrections are normal in any given year. Even though corrections are expected, a client needs to be comfortable with their overall asset allocation and the recommendations their advisors provide. We review asset allocation at least annually and as needed as clients go through life events. The relationship between a client and their advisor is very important and develops over time.

LEMOS: And then reminding clients that market adjustments are normal. We went back and looked since 1950, and on average, we get a 5 percent correction about once a quarter and on average we get a 10 percent correction about once every 12 months. We've been in a quiet period in terms of large market drawdowns as of late, but the bottom line is that market corrections are normal and healthy for markets.

GIACOBBE: We also spend a lot of time with our clients on financial planning, and helping them discover what they need to reach their retirement goals. One of the biggest risks that retirees face is the timing or sequence of their investment returns they earn during retirement. For example if your portfolio has too much downside volatility in your early retirement years, it may be difficult to recover, especially if you are taking withdrawals from the portfolio. We like to walk through some of these different scenarios, and really understand if our client's goal is to have a really safe and comfortable retirement or is it to be more aggressive and try to grow their wealth. Once we understand what their goals are and what motivates them, it becomes easier to make good decisions that will accomplish them.

JACOBSEN-NALLY: We take a consultative approach that is unique to every client that we have. Learning what their needs are. And as you said, there are many factors other than just stock market performance. At Argent, we have many unique assets, mineral interests, real estate and operating businesses, that are held in trust. And so those allocations come into play as well. It's counseling your clients through the market volatility, understanding their unique holdings, and, sometimes, telling them to turn the television off.

NICKEL: We talked about using different levers. And you want to build and construct portfolios with different levers that you can pull on at different times. If the markets are up 23 percent and a client is doing a home renovation, maybe you do talk about skimming some profits off the top. If the market's down 23 percent and they're doing a home renovation, maybe you look to your fixed income. With multiple options, you don't have to make bad decisions at the worst time.

MODERATOR: Let's talk about the Department of Labor's new fiduciary duty rule, which has been temporarily delayed. What is the government trying to achieve with this rule? What does it mean for investors and is it a good idea or a bad idea?

LEMOS: Clearly the stated goal is to protect retail clients who may be a little less financially sophisticated. The rule itself would require the fiduciary standard to be in place. So this means that you need to put client interests first.

NICKEL: But it's only for retirement accounts.

LEMOS: Yeah. I've read an awful lot about the new DOL rule. There are clearly costs and benefits. After considering the costs and benefits, we've come down on the side that implementing the fiduciary rule, on balance, is a good idea.

BUDNICK: Putting the client first is always the right thing to do. At Stock Yards the rules aren't going to really change how we do business. We already acknowledge we're a fiduciary anyway. We don't take commissions. We don't have front-end or back-end loads on our mutual funds. We don't have products to push and we don't have proprietary funds. So it doesn't really affect what we're doing.

LEMOS: During the period of time when they were putting the rule out for public comment, the RAND Corporation did a large survey of retail clients. And the reality is the vast majority of them already thought their broker or their adviser was operating under some fiduciary standard to put their interest first. And the vast majority had no idea that there was another standard of care, the suitability standard, that their adviser may have been operating under. So it's interesting. There's a lot of confusion around this, of course, in the retail landscape. So probably clarifying what the rules is very important.

RICKETTS: When I started in this business in the '70s, we talked about the "prudent man" rule. It ain't changed. It's the same. We've always had fiduciary responsibility. If this offers better transparency, then great. Good for us if I talk to a client about their safe money, their qualified plan, they're going to ask me, "What about this other stuff I have over here? Is that not safe stuff?" So yes, you have to use psychology to handle that sort of situation. Raymond James lets us do it either way. But we do see the need for better transparency.

JACOBSEN-NALLY: Working for a trust company for most of my career, I've always operated in a fiduciary capacity. So it will have little impact on Argent Trust and the way we operate. Really it just offers a level of transparency for all the players in the retirement planning arena. But we're already operating under the fiduciary rule standard with strong disclosure requirements and self-dealing prohibitions. And so the fiduciary duty rule is going to have an equalizing effect for trust companies, like Argent. I truly believe a fiduciary standard will definitely benefit clients in the long run. And I think advisers as well.

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NICKEL: My time is mostly spent within the trust company at Hilliard, so I am a fiduciary. However, I do spend some of my time on the broker/dealer side. Roughly 75 percent of Hilliard's overall business comes from our Private Client Group. Hilliard's stance is we like the idea of putting client's interests ahead of the advisers or the firm's. So we're totally in agreement with that. We don't think it makes sense, though, that a new regulator, the DOL, is going to be just looking at retirement plans and IRAs. It would probably make more sense if the SEC, or somebody who we're already used to dealing with, would look at the entire relationship from a fiduciary standpoint and have it be somewhat more consistent across the board. So we hope the outcome of the review is intelligent, sane, consistent regulation.

GIACOBBE: At AWM we always serves as a fiduciary to our clients, and from our perspective it is hard to understand why investors would want someone to work with someone who does not have their best interest in mind. Regardless of what happens to the fiduciary rule, we believe the 'cat is out of the bag', and the trend towards fiduciary services is already happening. If you look at the statistics, investors are already moving their money towards low-cost investments, and away from high-cost advisers that may have conflicts. Here's a great example, since 2009 Vanguard, known for the lowest fees in the industry, has grown their assets by three trillion and now manage over four trillion in assets. I think this trend will continue and maybe if the DOL moves forward with the fiduciary rule, it happens a little faster, but regardless it's likely to continue.

MERCER: Merrill has already moved to fully embrace the fiduciary rule. John Thiel, our president, was part of the negotiations with the DOL and ongoing. And so in November, we stopped doing any fee base or any commission-base trading and IRAs were set on April the 10th to fully embrace the fiduciary rule. I think we're the only major wire house that has done that already. My team is already operating under a full discretionary model so it really didn't affect my team at all.

GIACOBBE: Most individuals don't realize there is a difference in the standard of care that advisors can provide to their clients, and are surprised when they learn about it.

MERCER: If you asked an average client or an average person on the street about the fiduciary rule, they probably would have no idea what you're talking about.

MODERATOR: How has the fee structure evolved over the last 10 years and where is it going?

GIACOBBE: I would say close to half of the prospects we meet aren't really sure how much they are paying their current advisors in fees. Often the account statements they receive from their advisors are not transparent and make it hard to tell what their fees and performance are. We think this will change as clients start to demand better reporting and service from their advisors. In the

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last 10 years something like 85 percent of active managers have underperformed their respective benchmarks. People are starting to realize that the fee they pay is a big component of total returns. Morningstar has done several studies showing one of the best predictors of future returns is fees, with lower obviously being better. So I think if you want better returns, particularly in a highly valued market, lowering your costs is a very good place to start.

LEMOS: Our key responsibility is not just finding investments that we think are going to perform well. Clearly, when we're allocating assets, we need to also find the most cost effective way of allocating client assets. We've done some study and the reality is the compounding effects of the fee savings over time can be an important component of the overall wealth that your client has in 20 or 30 years. It's fascinating when you start to see the compounding effects of fees savings.

NICKEL: Last year, Vanguard brought in more with one mutual fund company than the rest of the mutual fund industry combined. That's astounding. We're eight years into a bull market and it's been very hard for active management to outperform. So people are questioning, are these fees worth it? Robo advisers are making people much more fee conscious. So it's up to us as advisers to make the case for why we're worth it. I was at a conference last year and the presenter said, "Well, as an industry, we've done a terrible job of pricing business because we have set our clients up to expect our management fee to be all about investment performance. What about financial planning? What about re-balancing? What about developing the right asset allocation? What about bill pay? What about trust administration? But we make it all about the investment performance. And we've got to, as an industry, make it clearer and more transparent that here's what you're paying for and here's what you get for it. And yes, investment performance is important, but it is not the only thing." And that has stuck with me. Now there's a long way to go in how we would reprice our services. But it is true we set ourselves up that investment performance is all that matters.

MERCER: You have to make a distinction between investment management and wealth management. So if you are just managing money for somebody, you maybe shouldn't make as much as if you're providing wealth management services where you're helping them with their estate planning, with their insurance, with their education planning, financial planning, helping them with their parents long term care needs. You're doing additional services so you're able to earn a higher fee on that. The other thing that I would point out is the reason why Vanguard is grown so much is because they have channeled us. So they're not just selling against us anymore. They're selling with us. There are Vanguard wholesalers and vendors coming into our offices now. And then we've gone to the passive market. And I would remind everybody at the table this. If you go back in the '90s when you had the no-load mutual fund, they were going to put us out of business, right? Well, you don't have hardly any no-load mutual funds sold directly to the public because what they found was, when you had a market sell-off, everybody called in to sell. Fidelity did a study. They found that 98 percent of Fidelity Magellan shareholders lost money in the fund. One of the greatest funds ever in history. And it's because there wasn't a gatekeeper there. And so I would say this massive move towards passiveness when we get the next market volatility cycle, when this bull market ends, we'll have the same issue again.

NICKEL: We'll probably know

only in hindsight. But how much has Fed interaction and their hyperactivity had an impact on returns and how hard it's been for active management to outperform. Is that due to Fed interaction? And I just saw yesterday that Alliance-Bernstein is offering six funds that charge fees only if returns beat their benchmarks. I think that is going to be a trend we're going to see more and more of.

LEMOS: In defense of active management for those of us who manage individual funds or SMA strategies, we are starting to see meaningful performance divergences between sectors and lower correlations among individual equities within the S&P 500. So I would not be surprised if we started to see some active managers look a lot better than they have when we've had just these simple risk-on, risk-off trading environments like we've had since the financial crisis.

GIACOBBE: I wouldn't be surprised either if we see active management start to outperform in the next few years. These trends tend to run in long cycles and at some point the relative performance trend will turn back in favor of active management.

BUDNICK: Fee structures have and are continuing to move to a value-additive approach. Some people might view investments as a commodity, but we do so much more than that. At Stock Yards, we have the strength of the bank behind us. We are basically a one-stop home-grown financial solution. From private banking to business banking, whatever it might be, we help people achieve their financial goals. We take the holistic approach with estate, financial and social security planning. The depth and knowledge that we have on our team really helps clients. I challenge you to find a robo adviser that would go with a child to a funeral home to plan their parent's funeral, select the cemetery plots, and know the intricacies of their family relationship or understand that their dad worked for GE, they have a concentration in it and they don't want to sell it, and there's reasons why. There's a lot more to investing than just stocks and bonds. It's about understanding a client's goals and helping them reach them.

LEMOS: In the wealth management space, your value proposition has to be a lot more than just, "Hey, look at our performance."

BUDNICK: Right.

MERCER: With just one piece of advice you can save the client millions of dollars. I had a client that wanted to sell his business last year and I said, "Well, why don't you kick the transaction back to

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Jan. 3 as opposed to Dec. 27? You might save yourself a $1 million in taxes." I said, "Can you close it next year?" He said, "Yeah." I said, "Well, we're probably going to have a tax cut, why wouldn't you take the chance?" You're going to pay the taxes one way or the other but kick it down the road. For that client, I covered my fees for the rest of his life.

JACOBSEN-NALLY: Our Trust and Wealth Advisory fees are more for our intellectual capital as your adviser. We have experience in all facets of finance and life events. We advise on closely held businesses, real estate, IRA transactions, business succession transactions, and wealth planning. We know the family, visit funeral homes, even visit colleges with children who had been left without parents. Watching these children grow up, go through college; these are important things that we do. And our fees are not investment centric. Client expectations in wealth advisory have forced the fiduciary industry to look for pricing execution – to look for alternatives that are less costly for the investor inside of the portfolio. We've become more frugal with the decisions that we make from a portfolio management standpoint. We do so much more lifestyle planning and trust administration, such as bill paying. Even getting a call from an elderly person who's been taken advantage of by a phone scam late on a Friday evening. Being available for things like that are important.

BUDNICK: And the tax savings for the estate planning. When you save somebody and their future generations millions of dollars, they are forever indebted to your knowledge and guidance.

JACOBSEN-NALLY: And your financial adviser should be your quarterback. They should communicate with your attorney, your CPA, your business valuation experts. They should be involved in all that to be able to advise you in different situations. Not just on the investments.

MERCER: It's like changing the title of the owner of a life insurance policy or a beneficiary of a life insurance policy and annuity. All those things like that fall into wealth management. And those are things that the fiduciary rule cannot cover. And they cannot change the value that people at this table add to their client relationships by doing stuff like that.

LEMOS: Sometimes, the most important decision we help clients with is a decision to do nothing. Because often times when the markets are volatile or things are looking a little risky, clients want to do something. It's human nature for us to want to do something, right? So coaching them not to do something, often turns out over long periods of time to be the best decision. But how do you account for that? It's often not as clearly visible in a raw performance number.

RICKETTS: We've been lowering fees since 1975. We had a May Day event then they cut commissions in half. And then we go into the 90's with discount brokers which fostered day traders. That didn't work so well. I think the one thing that I am seeing with the lowering of fees is we're seeing more consolidation in our industry. There's fewer firms out there. And there's also fewer advisers. So the strong will survive. The way we manage the relationship, to me will continue to win out. Fees shouldn't be the first thing you talk about.

MERCER: The barriers to entry in our industry are huge today because of fee compression and because of the complexity of the industry and the rules and the different accounts and taxation. It takes years to make a financial adviser. And I think the average age of a financial adviser is in their mid-60s now and you can't mint a financial adviser overnight with all those complexities and continued complexities that are added to it. I've probably had 120 interns work for me the last 25 years. Only one of them is still in the financial services industry.

BUDNICK: It's very complex. You have to know about investments. You have to know about estate planning. You have to know about taxes and how it all dovetails together.

JACOBSEN-NALLY: And interpersonal relationships and family dynamics.

NICKEL: I know very few people who are truly sole practitioners. It is a collaboration. It is a complicated world. And if you don't collaborate one way or the other, I don't know how you can survive. And for our new advisers that come through Hilliard, if they don't partner within a few years, it's a very difficult path forward for them.

MERCER: Merrill has done that as well. Essentially if you're not on a team, they're forcing you out. And all the other major firms are doing that as well.

BUDNICK: And as Mark said, with us being a quarterback, it's very important for people to know that we work with their attorneys, CPAs, and insurance advisors to make sure that everything is coordinated. We're not trying to practice law. We're not trying to practice accounting. We are just trying to serve as our clients' liaison. You can have the best estate plan in the world and if accounts aren't titled properly or trusts aren't funded, all of the planning and expense is for naught. We want to make sure all of our clients' goals are achieved.

MODERATOR: There are thousands of baby boomers going to the sidelines every day. Some have done real well in the stock market and are bringing considerable wealth into their retirement. Others have businesses that they're looking either to sell or pass on to the next generation. What goes into helping your boomer clients get ready for retirement?

GIACOBBE: One of the trends we're seeing is that people are overwhelmed by information overload, and simply want an advisor that will help them organize the financial-side of their lives. More and more, our first meeting or two has become a let's get organized meeting. Our clients will bring in all their financial information and we may sit in the conference room for a couple of hours helping them to organize it. We are able to organize and scan their important information and documents into a personal and secure online vault for easy access. The trend of the big financial plan that you stick up on the bookshelf has gone away. Many people prefer a mobile application that will give real time access to resources and information. Our clients view us as their trusted financial quarterback, helping them to collaborate and coordinate with their other advisors, their CPA, attorneys, insurance agent, etc. I think people are looking for an advisor that will be their advocate and a trusted resource to help them make good financial decisions. Often we can be a resource for multiple generations, especially when there are relatives who live out of town. They like to know all of their information is organized, accessible and they have a centralized resource for everything they need.

MERCER: This goes back to the value added I think all of us were talking about wealth management versus investment management. Merrill has a mobile application and essentially it's an account aggregation tool. And all of our clients we have set up on it. It takes the Merrill Lynch accounts and it goes out and pulls the Stock Yards Bank accounts or the Argent Trust Company accounts online. And it will pull that all forward and give you one source of a net worth statement. And then you can print out a personal financial statement right off of that. So from a client standpoint, if the market is down 10 percent, "Oh, yeah, but I still have a $5 million business here or I have a lake house or I have this real estate investment over here." So it allows them to focus more on their overall net worth and rather than the day-to-day changes in the market. And it helps them stay organized and stay focused.

BUDNICK: We look to develop a budget for our clients post retirement. We evaluate all of a client's income sources. Look at all of their expenses including health insurance, and their options for taking social security. We help determine which investment buckets are the most advantageous to draw from as they need cash flow. It's important to understand if a client is interested in spending all of their money before they pass on, or do they want to leave a nest egg for their children and/or grandchildren. If so, how much do they want to leave? As people are living longer, spending more and have fewer opportunities as they get older to replenish income, it is critical to consult with a professional that can guide them through the retirement process.

NICKEL: I think back to the boomers. Shannon just talked about Social Security. I think a lot of boomers think you hit 62 or 66 and you can just get your benefit and you forget about it. There is so much complexity with Social Security options that most people have no clue about. We have dedicated resources internally that can help people walk through all the different scenarios and try to pick and choose what's the right mix. So do you take your own benefit, your spousal benefit? Lots of different options. I would say that 90 or 95 percent of boomers have no idea how much complexity there is within Social Security.

JACOBSEN-NALLY: A lot of folks are busy. They're working, they're running their business. And so compiling all of this information in one place is not in their thought process. So I think that's value added that we also bring to the table. I think you're right about the retirement planning process – the platforms are becoming much more user friendly for the end user. Your Fidelity platform, your Vanguard platform, they have all the calculators on there for Social Security. So if folks want to do it themselves, they have the ability to do that. Typically we walk through that with them or we ask folks to

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go to the Social Security office. There's nothing like visiting the Social Security office yourself and having all of the options laid out in front of you. Most of the general public aren't aware that if you're a widow, you can draw at 60. And so these are some of the reasons why it is important to actually visit the Social Security office.

LEMOS: There was a time when it was relatively simple. It used to be as clients approached retirement you changed their allocation to more fixed income where they could get a 5 or 6 percent return with high-quality corporates or even Treasuries. That world has changed. And so we've had to become a lot more creative and thoughtful in our practice to help clients in this transition period to generate returns that are adequate while not taking too much risk. And so we clearly have gravitated more towards alternative investments that can provide a less volatile return path. But clearly, one of the biggest challenges that we've had is that our clients probably hold more equities now than they have in the past and I don't think that's going to change any time soon given the valuations in the fixed income markets.

BUDNICK: Well, look at the risk of fixed-income markets if there's a 1 percent interest rate hike, on a 10-year Treasury you can lose almost 9 percent of the price. Now, if you hold a bond to maturity you get the full value back, but that's an inherent risk people don't realize.

LEMOS: Two days ago, the Wall Street Journal had a big graphic that showed that high yield corporate bonds are offering a spread of 3.9 percent over comparable treasuries and investment grade bonds are 1.9 percent above comparable treasuries. That's telling. This indicates that bonds are priced pretty rich. And so you want to be very careful. That doesn't mean you don't own fixed income, but you do need to be very thoughtful about what fixed income you own and how you're positioned. It important to have good communication with your clients because most people still think that bonds are relatively riskless. So you have to continue to coach them on the current fixed income landscape.

RICKETTS: Thirty-five years of a bull market for bonds. Not so much the case recently. To Shannon's point, the day after the election, 10-year treasuries went from 1.8 to about 2.6 within a matter of a few weeks. That's a 7 percent decline in price. You earned about .2 on that bond if you bought at 1.8 percent. We do a lot of fixed-income business in our shop. Have for a long time. And we are having conversations that we've not had. I looked pretty smart for 35 years and then all of a sudden, in a matter of weeks, things changed. Clients got their December statement and they had a lot of parentheses on the bond part of the portfolio. So that's where the psychology comes back into play. We still think there's always a need for bonds in the portfolio. We don't get caught up in duration so much. We just try to buy the yield curve. The yield curve tells us where clients should spend their money. If we can get 70, 80 percent of the yield of a 30-year municipal bond in 12 years, that's where we're going. If we can get 70 or 80 percent of a 20-year corporate in seven years, that's where we're going. We just try to manage portfolios that way because our clients do want the income. And they're going to get the income. They like the income.

MODERATOR: What are the key factors you focus on when you're helping clients build their wealth and achieve their goals?

RICKETTS: I'll give you the simple answer because that's what I do. In helping our clients, you have to hear to be heard. You just got to pay attention. Hear to be heard. And you have to manage expectations. I've mentioned that several times. And man, you've got to communicate. You've got to talk to them.

JACOBSEN-NALLY: When the market is down, pick up the phone. Call your clients. Because if you're not talking to them, there's another adviser out there that probably is or someone at a cocktail party whispering in their ear. And they're saying, "Well, my portfolio did this and my portfolio did that." My goals aren't going to be the same as Shannon's goals. We're going to have customized goals. At Argent, we listen to the client, we get to know them. We're in continual conversation with them. We're judging their risk tolerance. We're walking them through everything. So again, I think that it does come down to listening. It comes down to paying attention to triggers within the family. Listening is critical to the overall plan or recommendations that you may make.

NICKEL: Mike said communication and I would just add "with conviction." You must really believe in what you're doing and portray that to clients, then the conviction comes across. Over time, they get it and they'll trust you. We try to base everything we do on fundamentals. Nobody in the investment world gets every investment decision right. But if we can go back to our process and the process was based on fundamentals, and you can communicate that to clients in a way that they understand, they'll get it. All right, you didn't get that one right, but understand what the thinking was. And let's just keep moving forward. And that consistency, I think, leads to that level of trust.

MERCER: I think it comes down to a couple of things that Mark just said. You have to have a process. And you have to communicate what your process is to the client. And the client has to understand where they fall into the process. And where things break down is when you're not communicating to the client. They have an expectation and you're not communicating. If you continue to communicate to the client, they understand the process. And they have an expectation of what's going to happen. Then you have a long term client. If those things break down, you don't follow the process and you don't communicate, it doesn't work very well.

NICKEL: Everybody would probably agree, you get a new client, a

new relationship and you try to spend as much time up front educating them, getting them to understand the process. And you're in front of that client as often as needed. But three years down the road, five years down the road, the process hardly ever comes up, if at all, because they just know you're consistent. You do what you said you're going to do. And they get it. And that's a beautiful thing. It's a fun thing.

MERCER: We just onboarded a very large new client and the client communicated this to me. He said, "I'm no longer a prospect with my current adviser. I'm a client. And I want to be a prospect again."

BUDNICK: That's interesting.

RICKETTS: One of the major brokerage firms on Wall Street, I won't mention any names, did a survey of their clients within a couple of months of September 11, 2001. Less than 15 percent of their clients had been contacted by their rep while the markets were closed. That's sad.

GIACOBBE: Barron's Magazine recently had an interesting article titled, "What do you have that Warren Buffet doesn't?", which caught my attention. The answer to the question was time, which is a great message and reminder that when working with clients one of the biggest advantages we have is time. Too many professionals in our industry are short-term focused, trying to beat a benchmark or over trading which causes them to make short-term decisions with poor long-term results. We try to step back, communicate, work our process and use time to our advantage. I think avoiding that short term mentality allows us to provide a real service to our clients. Thinking long-term is the best way for clients to perform well and reach their goals.

LEMOS: I would just say to complement what others are saying is that, if you think about it through a behavioral finance lens, we have to be cognizant of the common investment errors that we all make, not just our clients, but we as advisers can be prone to make. Listen, we're human beings. We're emotional. We often times want to act when we don't need to act or are overconfident or are prone to extrapolate recent trends. And so if we can be thoughtful about these common behavioral investment errors, which by the way can derail even the best laid investment plans, I think we can increase the probability that our clients will have a good outcome.

BUDNICK: Knowing your client, becoming part of the family, that helps us provide the best kind of advice we can give to our clients. We're all in the personal service industry. That's what we're doing. Yes, we all provide investment, financial and estate planning advice, but we're really here to serve our clients, their entire family, and be involved with them through generations. That's the part of my job I love. I love seeing the births of grandchildren, kids going to college, children getting jobs, those kinds of things. You want to be there for your client to call you and share those special moments with them. That is what's great about what we do - watching our clients achieve their goals. Our clients pay us to have difficult conversations with them and their families. They need to know if they're spending too much, not saving enough, not using the right vehicles through which to invest, or if they don't have anything to worry about in retirement. Bringing up a pre-nup when a son or a daughter may be getting married. They don't want to be the bad guy. We become our clients trusted advisors. We don't take that responsibility on lightly. We are there to help our clients navigate the rough waters and plan for their future.

▸ BY THE NUMBERS

KENTUCKY'S UNBANKED AND UNDER-BANKED INCREASE

Kentucky ranks as one of the nation's 10 most unbanked and under-banked states, according to a report from the Federal Deposit Insurance Corp.

The report is a biennial study to determine the number of households that have no access or limited access to financial institutions. The FDIC recently released state-by-state data from 2013.

Highlights of the report include:

No. 10
Kentucky's rank on the list of states with the most unbanked or under-banked residents.

33.2 percent
The percentage of Kentucky residents who were unbanked or under-banked in 2013, up from 31.4 percent in 2011.

9.7 percent
The percentage of Kentucky residents who were unbanked in 2013, down from 9.9 percent in 2011.

23.5 percent
The percentage of Kentucky residents who were under-banked in 2013, up from 21.5 percent in 2011.

Louisville deemed ideal for ag

Eleven agriculture-based startups pitched their companies at ReSurfaced in Louisville recently in hopes of win- | gram –organized by Blue Sky Network, Radicle Capital and Massachusetts-based VentureWell, along with Village

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